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C O N F I D E N T I A L SECTION 01 OF 02 BRATISLAVA 000927

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TAGS: [ENRG](#) [ECON](#) [PGOV](#) [PREL](#) [KJUS](#) [LO](#)

SUBJECT: TRANSPETROL NOMINEES AND COALITION DYNAMICS

REF: A. BRATISLAVA 917

[B.](#) BRATISLAVA 890

[C.](#) BRATISLAVA 911 AND PREVIOUS

Classified By: Ambassador Rodolphe M. Vallee for reasons 1.4 (b) and (d)

[11.](#) (C) Summary - The appointments made to the boards of Transpetrol at the November 20 shareholders meetings have been roundly criticized not only by the opposition parties, but by Prime Minister Fico as well. The most controversial nominees, Julius Rezes and Sergej Zapotocky, have strong ties to HZDS chairman and former PM Vladimir Meciar and held prominent positions with a former state company that was stripped of its assets in the 1990's. Fico criticized Rezes' appointment prior to a cabinet meeting on November 22, but stopped short of calling for his removal after reaching an accommodation with Meciar. Fico's critical comments had more to do with coalition dynamics and media perception than any real issues with the nominees, who were likely known to Fico well in advance of their announcement on November 20. Opposition parties, led by SDKU, have criticized almost all of the board members for their ties not only to Meciar, but also to the financial backers of Fico's Smer party. The controversy has kept Transpetrol in the headlines, but has little impact yet on efforts to finalize a deal that would return control of the oil transport company to the GOS. End Summary.

NEW BOARD HAS AN OLD, FAMILIAR FEEL

[12.](#) (C) As outlined in Reftel A, the Transpetrol shareholders approved Minister Jahnatek's nominations to the board of directors and the supervisory board of the company on November 20. Although the names of the nominees were not known publicly, they had been known within government circles for several weeks and the names of the two BoD nominees had been passed to econoffs in advance of the shareholders meeting. With just a couple of exceptions, all of the appointees are businessmen with strong ties to either HZDS chairman and former PM Meciar or to the financial backers of Fico's Smer party. The appointees include:

BOARD OF DIRECTORS

-- Sergej Zapotocky is a former executive of the steel works VSZ Kosice (the factory U.S. Steel purchased in 2000) with close ties to Meciar. Zapotocky, together with members of the Rezes family (see below), stripped the previously profitable steel conglomerate of its assets and drove it to the brink of bankruptcy in the late 1990's. According to newspaper reports, Sergej and his brother, Alexander, are linked to several companies with alleged ties to organized crime.

-- Vladimir Balanik is considered as a top advisor to Juraj Siroky, who is one of Smer's main financial sponsors with business interests ranging from hockey to newspapers. Balanik also has a history with VSZ Kosice, serving on the company's board as a representative of Siroky's Harvard investment fund (Slovakia's version of Viktor Kozeny's Czech Harvard fund) in 1994. Balanik co-owned the RST Rusko Slovensky Trading firm, which was liquidated in 2003, with Siroky and Vladimir Lexa, the father of Meciar-era secret service boss Ivan Lexa, as well as Mikhail Krapivin, a Gazprom representative based in the Czech Republic.

According to the press RST was believed to have unsuccessfully attempted to sign contracts with Gazprom on deliveries of natural gas to Slovakia, separate from SPP, Slovakia's former state gas monopoly. Economy Minister Jahnatek comes from the same group within Smer, and even worked with Balanik at a plastics company in Nitra before accepting his current position.

SUPERVISORY BOARD

-- Julius Rezes is the son of Alexander Rezes, a long-time confidant and financial supporter of Meciar who served as Minister of Transport from 1994 to 1998. The younger Rezes was on VSZ's supervisory board from 1995 to 1998 and was CEO and chairman of the board beginning in February 1998. Under his management the company went from being a profitable enterprise to one that was losing millions of dollars a year.

The company was bailed out by the government and later sold to U.S. Steel.

-- Dusan Mach is a close friend and business partner of Parliamentary speaker and Smer Deputy Chairman Pavel Paska. Both come from Kosice, where Mach is the owner of several small companies in the real estate, health and retail

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sectors.

-- Ladislav Haspel is a close business associate of Smer financial supporter Pavol Kmotrik. Kmotrik owns several media companies including JOJ TV and TA3 News TV, several printing companies, Artmedia Petrzalka soccer team and packaging company Grafolab Skalica.

-- Mikulas Rakovsky is Director of the representative office of Ukrtransnafta in Slovakia. Rakovsky formerly worked for Transpetrol and has been a long-time advocate of Caspian crude through the Odessa-Brody-Druzhba connection.

-- Viliam Krizan is the boyfriend of Economy Minister Jahnatek's daughter, according to press reports. There is no other information available on his background.

BOARD CRITICIZED, BUT NOT CHANGED

¶3. (C) Most major dailies immediately criticized the appointment of Rezes to the supervisory board calling it a "Return to HZDS style" and recounting Rezes' previous involvement with VSZ. Fico joined the chorus and condemned the nomination of Rezes and one other unnamed nominee, presumably Zapotocky since his nomination came from HZDS, in advance of the November 22 Coalition Council meeting, noting that these personnel changes violate "serious principles" of the coalition. This was the first official meeting between Fico and the Chairmen of his two coalition partners, Meciar from HZDS and Slota from the Slovak National Party, in over two months. In the interim Meciar had criticized several of the government's policies, including the elimination of the two percent tax assignation by corporations to NGOs, and had been seen as cozying up to opposition parties. At the Coalition Council meeting Meciar reportedly stood up to Fico's demands that he withdraw Rezes' nomination, noting that HZDS would take full responsibility for the choice. In an apparent exchange for Meciar's support on the budget, Fico agreed he would not overturn the nomination of Rezes, but

said he would halt further nominations to state companies pending more detailed checks of the nominees. A minister present at the meeting described it as a rough, four-hour argument between Fico and Meciar.

¶4. (C) The opposition has been much more fierce in their attacks on all of the nominations. Former PM and SDKU chairman Mikulas Dzurinda led the charge calling the coalition council agreement between Fico and Meciar a "nepotistic barter" whereby Fico approved Rezes in exchange for Meciar's acceptance of Smer's nominees. Former finance minister Ivan Miklos told the press that even if SDKU had taken HZDS into the coalition, SDKU would never have allowed Meciar to place such people on the boards. Other opposition parties including the Christian Democrats (KDH) and the Hungarian party (SMK) chimed in with comparisons to the Meciar years and speculation as to what this will mean for Transpetrol. During a November 26 television debate, Miklos alluded to media reports suggesting a connection between the new board members and Russian organized crime. (Note: This theory is circulating in the press, but we have no way of verifying the claims. End note.)

COMMENT

¶5. (C) Criticism over the appointments to the Transpetrol boards has dominated the headlines for more than a week. Despite all of the rhetoric, it is highly unlikely that Fico did not know the nominees ahead of time since his Smer-appointed Economy Minister represented the GOS at the shareholders meeting and Fico and Jahnatek had met privately just the week before to discuss the status of the Transpetrol negotiations. Fico's public criticism was more likely the combination of a populist reaction to media criticism and an effort to shift the blame to Meciar, who has been causing difficulties for his government in recent weeks. According to an SDKU insider, Meciar's actions with Rezas et al makes it exceedingly difficult for SDKU, particularly with KDH taking an "I told you so" position, to accept HZDS in any future coalition, ironically strengthening Fico's hand. Ultimately the public debate over the questionable nominations, as well as the nominations themselves, will have little impact over the key issues facing the GOS regarding the sale of the 49 percent stake owned by Yukos' Netherlands-based subsidiaries. The BoD and supervisory board members are loyal to the government and will vote in line with GOS policy. End Comment.

VALLEE